

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

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February 27, 2008

Jesse B. Brown, Executive Director  
Merced County Association of Governments  
369 W. 18<sup>th</sup> Street  
Merced, CA 93540

Re: Merced County Association of Governments  
Audit of Indirect Cost Rate Proposal FY 2007/08  
File No: P1190-0657

Dear Mr. Brown:

We have audited the Merced County Association of Governments' (MCAG) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2008 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The MCAG management is responsible for the fair presentation of the ICAP. The MCAG proposed an indirect cost rate of 33% of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the MCAG. Therefore, we did not audit and are not expressing an opinion on the MCAG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the MCAG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the

OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of the MCAG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a review of the MCAG's single audit report for the fiscal years ended June 30, 2006, inquiries of MCAG personnel and reliance placed on the single audit report for the fiscal year ended June 30, 2006 and prior audit field work performed by the Department in October 2004. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our finding and recommendation are listed below. A copy of our finding and recommendation was provided to MCAG on February 15, 2008, but MCAG chose not to provide a response.

## **AUDIT RESULTS**

Based on audit work performed, the MCAG's ICAP for the fiscal year ended June 30, 2008 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is 33% of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

### **Audit Findings**

#### **Finding 1**

We noted that the MCAG's Overall Work Program (OWP) Work Element 1310 includes activities that are administrative in nature and should be treated as indirect costs. Specifically, maintaining files, correspondence and data, preparing financial and evaluation reports, preparing fiscal and compliance audits and general administrative activities that benefit all programs/projects of MCAG should be treated as indirect costs. Directly charging administrative activities to a single federally funded work element will result in the federal government paying a disproportionate share of indirect costs. Additionally, we noted activities to provide services to the MCAG Governing Board, such as preparing agendas or Board minutes. The time and expenses incurred by or in support of the Governing Board are considered unallowable general governmental expenses and should not be charged to Federal or State funding sources.


OMB A-87, Attachment E, Paragraph A.1 defines indirect costs as those incurred for common or joint purposes and benefiting more than one cost objective. OMB A-87 Attachment B, #19 states in part, that the general costs of government are unallowable, including the salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction.

**Recommendation:**

We recommend that MCAG revise its fiscal year 2007/08 OWP so that indirect and unallowable activities are segregated from other allowable, direct activities. We further recommend that MCAG separately account for the time and expenses incurred by or in support of its Governing Board from other allowable activities to ensure that such costs are not included in requests for reimbursement from federal or State funding sources. Finally, we recommend that costs already charged directly this fiscal year for work element 1310 be reimbursed to the Department or credited on the next reimbursement request.

This report is intended solely for the information of the MCAG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 10, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Barbara Nolan, Auditor, at 916-323-7880 or Amada Maenpaa, Audit Supervisor, at 916-323-7868.

  
MARYANN CAMPBELL-SMITH  
Chief External Audits

**Attachments**

c: Pat Robledo, District 10 Senior Transportation Engineer  
Gary Buckhammer, Division of Accounting  
Brenda Bryant, FHWA  
Andrew Knapp, Division of Planning  
Tom Dumas, District 10 Office of Metropolitan Planning  
Ken Baxter, District 10 Deputy District Director

# **MERCED COUNTY ASSOCIATION OF GOVERNMENTS**

## **(MCAG)**

### **Metropolitan Planning Organization (MPO)**

#### **Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the City and approved by the Department.

#### **SECTION 1: Rates**

<b><u>Rate Type</u></b>	<b><u>Effective Period</u></b>	<b><u>Rate*</u></b>	<b><u>Applicable To</u></b>
Fixed with carry forward	7/01/07 to 6/30/08	33%	All Programs

\* Base: Total Direct Salaries and Wages plus fringe benefits

#### **SECTION II: General Provisions**

##### **A. Limitations:**

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

##### **B. Accounting Changes:**

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

##### **C. Fixed Rate with Carry Forward:**

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

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**D. Audit Adjustments:**

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

**E. Use by Other Federal Agencies:**

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

**F. Other:**

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

**G. Rate of Calculation:**

FY 2007/2008 Budgeted Indirect Costs	\$ 513,554
Carry Forward from FY 2005/2006	<u>130,823</u>
Estimated FY 2007/2008 Indirect Costs	\$ 644,377
FY 2007/2008 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$1,961,967
FY 2007/2008 Indirect Cost Rate	33%

**CERTIFICATION OF INDIRECT COSTS**

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year **2007/2008 (July 1, 2007 to June 30, 2008)** are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
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- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Merced County Association of Governments

Signature: [Signature]

Reviewed, Approved and Submitted by:

Name of Official: Jesse B. Brown

Title: Executive Director

Date of Execution: 02/20/08

Signature: [Signature]

Prepared by:

Name of Official: Terrie Hagins

Title: Administrative Services Supervisor

Telephone No.: (209) 723-3153 Ext 317

#### INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature: [Signature]

Reviewed and Approved by:

MaryAnn Campbell-Smith  
Name of Audit Manager

Title: Chief, External Audits

Date: 2/28/08

Phone Number: 916-323-7105

Signature: [Signature]

Reviewed and Approved by:

Barbara Nolan  
Name of Auditor

Title: Auditor

Date: 2/28/08

Phone Number: 916-323-7880

# ATTACHMENT 1

## MERCED COUNTY ASSOCIATION OF GOVERNMENTS ESTIMATED BUDGET - FISCAL YEAR 2007/2008

Rev. 2/20/08

BUDGET ITEM	DIRECT COSTS	INDIRECT COSTS	UNALLOWABLE COSTS	TOTAL BUDGET
Salaries	\$1,373,080	\$217,000	\$5,500	\$1,595,580
Fringe	\$588,887	\$112,000	\$1,500	\$702,387
Communication	\$19,000	\$5,500		\$24,500
Janitorial Expense		\$9,000		\$9,000
Insurance-Other	\$1,000	\$27,500		\$28,500
Maintenance-Equipment		\$6,000		\$6,000
Maintenance-Auto		\$500		\$500
Maintenance-Structure		\$1,000		\$1,000
Membership		\$1,000	\$7,000	\$8,000
Office Expense-General	\$26,900	\$25,100		\$52,000
Office Expense-Equipment		\$1,000		\$1,000
Professional & Special Services	\$5,636,719	\$35,000		\$5,671,719
Audit	\$7,500	\$25,000		\$32,500
Publication/Legal Notices	\$5,250	\$1,000		\$6,250
Rents/Leases-Equipment	\$3,250	\$11,400		\$14,650
Use Allowance		\$11,390		\$11,390
Interest Costs		\$8,004		\$8,004
Rents/Leases-Structure & Grounds				\$0
Special Departmental Expense	\$217,200	\$1,000		\$218,200
Transportation & Travel	\$66,710	\$1,000		\$67,710
Utilities		\$12,000		\$12,000
Fixed Assets	\$31,000	\$0		\$31,000
Contingencies			\$6,000	\$6,000
Depreciation-Auto		\$2,160		\$2,160
Totals	\$7,976,496	\$513,554	\$20,000	\$8,510,050

# MERCED COUNTY ASSOCIATION OF GOVERNMENTS

## ATTACHMENT 2

Rev. 2/20/08

FISCAL YEAR	2003/04	2004/05	2005/06	2006/07	2007/2008
APPROVED IC RATE	16%	17%	21%	24%	33%
<b>INDIRECT CARRY FORWARD</b>					
CARRY FORWARD	\$1,330	(\$14,996)	\$65,011	\$96,943	\$130,823
INDIRECT COSTS PER SINGLE AUDIT	\$283,894	\$355,524	\$379,907	\$0	\$513,554
TOTAL INDIRECT COSTS	\$285,224	\$340,528	\$444,918	\$96,943	\$644,377
RECOVERED COSTS					
(Direct Salaries + Fringe Benefits * Approved Rate)	\$220,213	\$243,585	\$314,095	\$0	\$1,961,967
<b>INDIRECT CARRY FORWARD</b>	<u>\$65,011</u>	<u>\$96,943</u>	<u>\$130,823</u>	<u>\$96,943</u>	
<b>DIRECT SALARIES</b>					
(PER SINGLE AUDIT)					
TOTAL DIRECT SALARIES plus Fringe Benefits	\$1,376,337	\$1,432,844	\$1,495,800		

removed \$7,171 from 05/06 indirect costs per single audit per Caltrans Audit  
Calcoq, NARC & Asso. of Metro Planning Org memberships not allowable